

CITY AUDITOR'S OFFICE



AUDIT OF THE SINGLE FAMILY RESIDENTIAL REHABILITATION PROGRAM

Report No. CAO 1801-0607-02

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**AUDIT OF THE
SINGLE FAMILY RESIDENTIAL
REHABILITATION PROGRAM
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BACKGROUND

The Neighborhood Development Division (NDD) of Neighborhood Services oversees the Single Family Rehabilitation Program (Program). The Program uses Community Development Block Grants (CDBG) and HOME Investment Partnerships (HOME) funding to provide repairs to low-income single family residences. The purpose of the program is to rebuild neighborhoods by improving the physical condition and energy efficiency of residences.

Applicants eligible for CDBG funding can receive up to \$15,000 in emergency or non-emergency grants. Participants have no requirement to maintain the property as their principal residence or repay the grant. Funding is provided in accordance with Title I of the Housing and Community Act of 1974. Implementing regulations are found at 24 Code of Federal Regulation (CFR) Part 570.

Applicants eligible for HOME funding can receive up to \$50,000 of direct or deferred loans. Participants are required to maintain the property as their principal residence until the loan is paid in full or throughout the affordability period. Funding is provided in accordance with Title II of the Cranston-Gonzales National Affordable Housing Act of 1990. Implementing regulations are found at 24 CFR Part 92.

Neighborhood Services has allocated the following funding to the Program:

<u>Fiscal Year</u>	<u>CDBG</u>	<u>HOME</u>
2006 - 2007	\$200,000	\$600,000
2005 - 2006	\$400,000	\$600,000
2004 - 2005	\$300,000	\$300,000

OBJECTIVE

Our objectives in completing the audit of the Program were to ensure that:

- Current policies and procedures have been established in accordance with applicable guidelines.
- Management controls are adequate and operating as intended.

SCOPE AND METHODOLOGY

Our fieldwork was performed in accordance with generally accepted government auditing standards. Procedures included:

- Interviewing applicable city personnel
- Researching applicable guidelines
- Testing established management controls

The scope of our audit was limited to selecting project files active and/or finalized in fiscal years 2004 - 2005 and 2005 - 2006. A total of ten project files were judgmentally selected for review. Four of the projects were categorized as CDBG projects and six were categorized as HOME projects.

FINDINGS AND RECOMMENDATIONS

Our audit identified issues management should address relating to the Program. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Income Determination

Criteria:

The United States Department of Housing and Urban Development (HUD) allows CDBG and HOME programs to use one of three income definitions to determine applicant eligibility, as follows:

- Annual income as defined in 24 CFR Part 5.
- Annual income as reported under the Census long form for the most recent decennial census.
- Adjusted gross income as defined for the purposes of reporting under Internal Revenue Services Form 1040 series for individual Federal annual income tax purposes.

The same income definition must be applied within a particular program. NDD uses the 24 CFR Part 5 definition of income for the Program.

Condition:

An income verification analysis was completed on ten project files. The analysis consisted of reviewing the completed application forms; reviewing the supporting documentation used to verify income; recalculating participant income; and comparing the calculated income to the income used to determine eligibility. Certain issues were noted in the income verification analysis as addressed below:

- The income calculation for four of ten project files was not based upon anticipated income as required by 24 CFR Part 5.
 - For one project file, the income as represented by source documentation was twice the allowable income. The participant should not have received the grant assistance.
 - For one project file, the source documentation indicated that the participant's social security income had increased. If the increase had been factored into the income calculation, the assistance provided would have changed from a deferred loan to a direct loan.
 - For one project file, the participant's income tax return included an Individual Retirement Account distribution. It is unclear whether this was a one time cash withdrawal or a recurring payment that should have been included as anticipated income.
 - For one project file, the gross self employment income was included in the income calculation instead of the net self employment income. The level of assistance provided would not have changed.
- Two of ten project files did not include evidence that all income sources were verified.
- The application form does not include a section for applicants to list assets. Instead, the application form includes an optional banking section. Income from assets is recognized as part of annual income under 24 CFR Part 5.
- A bank statement review for two of ten project files showed potential income in excess of the income represented on the application form. The project files did not contain evidence that procedures were completed to ascertain whether the applicants had undeclared income.

Cause:

The application form has a limited section for the declaration of income that does not list all potential income sources from all applicable individuals that reside in the home.

A systematic process is not followed by NDD to ensure potential income sources are verified and included in the income calculation.

Effect:

Without accurate income calculations, incorrect homeowner assistance is provided.

Providing assistance to individuals who are not income eligible could potentially result in the loss of Federal grant awards.

Recommendation:

NDD should develop a systematic approach to ensure that all potential income sources are included in the income calculation and verification process. This should include at a minimum:

- Verification of all income sources.
- Written notification to applicants of what is considered income.
- Follow-up when provided documentation does not agree with what has been represented as income on the application form.
- Modification of the current application form to incorporate the asset and income section of the HUD sample form used to calculate 24 CFR Part 5 annual income.
- Modification of the application form and/or the instructions for completing the application form as needed to address the above noted issues.

2. Re-Examination of Income

Criteria:

Program guidelines on the HUD website state that “the participating jurisdiction is not required to re-examine the family’s income at the time the HOME assistance is provided, *unless* more than six months has elapsed since the participating jurisdiction determined the family qualified as income eligible.”

Condition:

Once income has been examined, no additional work is performed to determine whether applicants remain eligible to receive assistance.

Cause:

Current practice does not include determining whether income should be re-examined.

Effect:

Noncompliance with HUD requirements.

The potential exists that NDD will provide assistance for individuals who are no longer eligible for the Program.

Recommendation:

NDD should implement a process to:

- Track the period between the initial examination of income and the time assistance is provided.
- Re-examine income when the period exceeds six months.
- Document the income re-examination in the project files.

3. Application Form

Criteria:

Program guidelines on the HUD website instruct participating jurisdictions to include a clause on the application form requiring applicants to affirm by their signature that the property is the applicant's principal residence.

Condition:

The application form does not include a clause for applicants to sign certifying the property is their principal residence.

Cause:

Application form does not include the required language.

Effect:

Noncompliance with HUD requirements.

Recommendation:

The application form should be modified to include a clause for the applicant to sign certifying the property is their principal residence.

4. Insurance Rider

Criteria:

According to NDD Single Family Residential Rehabilitation Program guidelines (page 4):

- All projects that result in the creation of either a direct or deferred loan require proof of current homeowner's insurance.
- The homeowner's insurance policy should be amended to include the City of Las Vegas as a loss payee.

Condition:

Six of ten project files reviewed resulted in the creation of either a direct or deferred loan agreement. As part of the application process, these participants were required to complete an "Authorization to Add the City of Las Vegas as an Insurance Rider" form. The following items were noted relating to this review:

- For one project file, the "Authorization to Add the City of Las Vegas as an Insurance Rider" form was not on file.
- For five projects, there was no evidence that the homeowner's insurance policy was amended to add the City of Las Vegas as an Insurance Rider.

Cause:

The "Authorization to Add the City of Las Vegas as an Insurance Rider" form does not require the insurance company to confirm that the homeowner's insurance policy was amended.

The procedure sign-off log does not include a step requiring NDD to verify that the homeowner's insurance policy was amended.

Effect:

The City's interest in a property is not preserved without being added as an Insurance Rider on the homeowner's insurance policy.

Recommendation:

NDD should:

- Modify the “Authorization to Add the City of Las Vegas as an Insurance Rider” form to include instructions for the insurance company to provide confirmation that the insurance policy was amended.
- Modify the procedure sign-off log to include a step requiring verification that the participant’s homeowner’s insurance policy was amended.

5. Credit Report Authorization

Criteria:

Fair Credit Reporting Act:

Section 604. Permissible purposes of consumer reports.

- (a) In general. Subject to subsection (c), any consumer reporting agency may furnish a consumer report under the following circumstances and *no other*:
- (2) In accordance with the written instructions of the consumer to whom it relates.
- (3) To a person which it has reason to believe...
- (D) Intends to use the information in connection with a determination of the consumer’s eligibility for a license or other benefit granted by a governmental instrumentality required by law to consider an applicant’s financial responsibility or status.

Section 608. Disclosure to governmental agencies.

Notwithstanding the provisions of section 604 of this title, a consumer reporting agency may furnish identifying information respecting any consumer, limited to his name, address, former addresses, places of employment, or former places of employment, to a governmental agency.

Section 617. Civil liability for negligent noncompliance.

- (a) In general. Any person who is negligent in failing to comply with any requirement imposed under this title with respect to any consumer is liable to that consumer in an amount equal to the sum of
- (1) any actual damages sustained by the consumer as a result of the failure;
- (2) in the case of any successful action to enforce any liability under this section, the cost of the action together with reasonable attorney’s fees as determined by the court.

Condition:

As noted above, without the written instructions of the consumer, a consumer reporting agency is limited as to what consumer credit information it can furnish to a governmental entity. For one of the reviewed project files, a credit report was ordered and received for two applicants (a husband and a wife). A signed "Authorization to Order Credit Report" form was on file for only the husband.

Cause:

The instructions provided to the applicants do not indicate that all applicants are required to sign an "Authorization to Order Credit Report" form.

The "Authorization to Order Credit Report" form only has space for one signature.

Effect:

Noncompliance with the Fair Credit Reporting Act.

Recommendation:

NDD should modify the "Authorization to Order Credit Report" form to include multiple signature lines. All co-applicants should be instructed to sign the form.

6. Contractor Bid Process

Criteria:

Program information on the HUD website states that:

- When the local public entity is selecting the contractor for a project that has Federal funds invested in it, Federal procurement rules do apply. The specific procurement requirements are described in detail at 24 CFR Parts 84 and 85.
- If the program has no jobs over \$100,000, at a minimum, the program must solicit price and rate quotes from an adequate number of qualified sources prior to contractor selection.

NDD Single Family Residential Rehabilitation Program guidelines (page 12) state that:

- Sealed bids will be submitted and opened at the time and place designated in the bid instructions.
- All bids will be reviewed for completeness by staff.

Bid instructions state “Bids will be opened at _____ on the _____ day of _____ in the office of the Neighborhood Development Division of the Neighborhood Services Department”

Condition:

The contractor selection process was reviewed for 10 project files. Bids were submitted for 7 of 10 projects. This resulted in the submittal of 17 bid forms. Inconsistent procedures were used for the receipt of sealed bid forms, as noted below:

- Nine bid forms were date/time stamped before the bid opening time.
- Seven bid forms were not date/time stamped.
- One bid form was date/time stamped after the bid opening time.

Cause:

A consistent process is not followed when sealed bids are received in Neighborhood Services.

Effect:

Opening sealed bid forms before the stated time on bid instructions permits certain protests. Contractors who have not yet submitted their bid could potentially become aware of the amount listed on other submitted bids. This information would give them an unfair advantage.

Recommendation:

Neighborhood Services should implement a standard process for opening sealed bids to include:

- Sealed bids should not be opened until the date/time indicated in the bid instructions.
- The envelopes that contain the sealed bids should be date/time stamped upon receipt.
- The sealed bids should be secured until opened at the date/time indicated in the bid instructions.
- Once the bids have been opened, the envelopes should be attached to the bid forms and filed in the project files.

7. Documentation Issues

Criteria:

HUD, City, and NDD guidelines require documentation to provide evidence of compliance with standards.

Condition:

A review of ten project files showed that various established procedures were not always completed or required documentation not always maintained as noted below:

- One project file did not include evidence that proof of identification was obtained.
- In two project files, the Preliminary Title Report showed delinquent State, County, and/or City taxes. Although it was represented that the delinquencies were resolved, the resolution was not documented.
- Two project files did not include a signed Residential Rehabilitation Assistance Approval/Denial form.
- Seven project files did not include a signed Disclosure of Principals.
- Four project files did not include a signed Notice of Right of Rescission.
- One project file did not include a Notice of Completion.
- Three project files did not include the Contractor's Release of Liens.
- Three Change Orders did not include the contractor's signature.

Cause:

Established procedures not followed.

Effect:

Potential non-compliance with established guidelines.

Potential risk of litigation if parties disagree on verbally agreed upon plan of action.

Recommendation:

NDD should implement the use of a standard tracking sheet to monitor the progress of each project. As each step is initiated or completed, the tracking sheet should be signed off. This would provide a continuous status of what is completed and what is still outstanding.

MANAGEMENT RESPONSES

1. Income Determination

Recommendation:

NDD should develop a systematic approach to ensure that all potential income sources are included in the income calculation and verification process. This should include at a minimum:

- Verification of all income sources.
- Written notification to applicants of what is considered income.
- Follow-up when provided documentation does not agree with what has been represented as income on the application form.
- Modification of the current application form to incorporate the asset and income section of the HUD sample form used to calculate 24 CFR Part 5 annual income.
- Modification of the application form and/or the instructions for completing the application form as needed to address the above noted issues.

Management Plan of Action: Management Plan of Action is verification of all income sources by income source documents such as wage earner statements, income tax returns, social security income statements, social security identification cards, bank reconciliation statements, investment income statements and verification of assets by source documentation such as proof of Title to vehicle, Title to property and other assets pertinent to income determination. As a check and balance procedure, staff will avail themselves of the Financial Analyst assisting the Single Family Rehabilitation Program in order to reconcile and verify income sources.

Written notification to applicants regarding what is considered income per 24 CFR Part 5 will be provided by way of a document accompanying application setting out in detail the specific income sources.

As a follow-up procedure, correspondence will be sent to applicants requesting additional source documentation or explanation of inconsistencies between represented income on application and source documentation provided.

The current application form will be modified utilizing HUD sample form, 24 CFR Part 5 annual income section outlining asset and income determinations.

All documentation regarding income and assets will be retained in the respective project file.

Estimated Date of Completion: 9-1-06

2. Re-Examination of Income

Recommendation:

NDD should implement a process to:

- Track the period between the initial examination of income and the time assistance is provided.
- Re-examine income when the period exceeds six months.
- Document the income re-examination in the project files.

Management Plan of Action: Management Plan of Action is to continue to utilize the case history log and develop and implement a six month tickler system in the form of modification of the application showing initial date of application and initiation of the project and subsequent re-examination of income if the six month period is exceeded before project initiation.

Estimated Date of Completion: 9-1-06

3. Application Form

Recommendation:

The application form should be modified to include a clause for the applicant to sign certifying the property is their principal residence.

Management Plan of Action: Management Plan of Action is to modify the current application to contain a clause certifying the property is their principal residence with signature by the applicant certifying the same.

Estimated Date of Completion: 8-1-06

4. Insurance Rider

Recommendation:

NDD should:

- Modify the “Authorization to Add the City of Las Vegas as an Insurance Rider” form to include instructions for the insurance company to provide confirmation that the insurance policy was amended.

- Modify the procedure sign-off log to include a step requiring verification that the participant's homeowner's insurance policy was amended.

Management Plan of Action: Management Plan of Action is to modify the existing "Authorization to Add the City of Las Vegas as an Insurance Rider" to be newly titled as "Authorization to Add the City of Las Vegas as an Additional Insured Party." Language will be included on the document to the Insurance Company stating "Please provide the City of Las Vegas with evidence of insurance listing the City of Las Vegas as an additional insured within 15-days of receipt of this authorization."

The Rehabilitation Tracking sheet procedure sign-off log will be modified to include a step verifying applicant's homeowner's insurance policy was amended.

Estimated Date of Completion: 8-1-06

5. Credit Report Authorization

Recommendation:

NDD should modify the "Authorization to Order Credit Report" form to include multiple signature lines. All co-applicants should be instructed to sign the form.

Management Plan of Action: Management Plan of Action is to modify the existing "Authorization to Order Credit Report" instructions to indicate all applicants must sign authorization for the credit report. Additional signature lines will be provided on the authorization form to accommodate more than one applicant.

Estimated Date of Completion: 8-1-06

6. Contractor Bid Process

Recommendation:

Neighborhood Services should implement a standard process for opening sealed bids to include:

- Sealed bids should not be opened until the date/time indicated in the bid instructions.
- The envelopes that contain the sealed bids should be date/time stamped upon receipt.
- The sealed bids should be secured until opened at the date/time indicated in the bid instructions.

- Once the bids have been opened, the envelopes should be attached to the bid forms and filed in the project files.

Management Plan of Action: Management Plan of Action is to develop a guide that summarizes the process and procedure manual. The guide will include specific steps in order to maintain consistency in the implementation of the bid process.

Estimated Date of Completion: 9-1-06

7. Documentation Issues

Recommendation:

NDD should implement the use of a standard tracking sheet to monitor the progress of each project. As each step is initiated or completed, the tracking sheet should be signed off. This would provide a continuous status of what is completed and what is still outstanding.

Management Plan of Action: Management Plan of Action is to develop and implement a Rehabilitation Tracking Sheet setting out each distinct and separate step of the Single Family Rehabilitation process from inception to completion with the requisite staff signature confirming that the process and procedure has been correctly followed.

Estimated Date of Completion: 9-1-06